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TAGS: [PINR](#) [ELAB](#) [ESOC](#) [ECON](#) [EFIN](#) [CH](#)  
SUBJECT: CHINA/ONE-CHILD/PENSIONS: HOW TO SUPPORT AN AGING  
POPULATION (C-AL9-01354)

REF: A. SECSTATE 71045  
[1](#)B. BEIJING 02795  
[1](#)C. BEIJING 00281

Classified By: Economic Minister Counselor William Weinstein, reason 1.  
4 (b,d)

[1](#)1. (U) This cable is also responsive to information requested  
in Reftel A (C-AL9-01354).

[1](#)2. (SBU) Summary: China's aging population is an important  
focal point for the government, but strategies for addressing  
the pressures caused by an aging population have so far  
focused on social support, and have not included significant  
changes in the "one-child policy" or the pension system. At  
present, changes to the mandatory retirement age are being  
debated, and discussion among academics and other experts is  
focused on improving services to the aged. Funding the  
pension system is a problem in many localities, but overall  
the system is currently in surplus, according to contacts.  
Some government officials expect that cutting corruption and  
waste, along with continued economic growth, will bring the  
financial resources needed to cover rising pension costs.  
Others appear to be content to push the problem down the road  
for future leaders. End Summary.

Little Interest in Adjusting the One Child Policy  
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[1](#)3. (SBU) Contrary to suggestions that China might loosen its  
one-child policy to relieve pressure put on its system by the  
large number of impending retirees, the consistent message  
from China's central leadership in recent years indicates  
that the family planning policy is unlikely to change in the  
near future (reftel B). In December 2006 the Central  
Committee of the Communist Party of China (CPC) and the State  
Council jointly put out a Decision on "Fully Enhancing  
Population and Family Planning Programs and Comprehensively  
Addressing Population Issues" which calls for stabilizing  
existing fertility policy. This Decision, which is the third  
major CCP policy pronouncement on family planning issues (the  
first Decision was published in 1991 and the second in 2000),  
focuses the long-term orientation of China's family planning  
policies on stabilizing China's low fertility level. The  
document also expands China's population and family planning  
directives to include responding to an aging population  
through developing a social security and old-age security  
system and establishing organizations and facilities to  
promote old-age services. The government has repeatedly  
reaffirmed this policy at the highest levels, including  
Premier Wen Jiabao, who emphasized the stability of the  
country's family planning policy in his work reports to the  
National Peoples Congress in 2008 and 2009. On both

occasions, Premier Wen highlighted the continuation of the current policy of family planning, of which maintaining China's low birthrate remains the key component.

¶4. (SBU) On the whole, experts also do not see fertility policy as the focus of government efforts to deal with the aging population. Ru Xiaomei, Deputy Director-General of the International Cooperation Department of National Population and Family Planning Commission (NPFPC) told EmbOffs in late-July that while there has been research on changes to family planning policy, no major changes are currently being considered. For aging policy issues, the NPFPC defers to the China National Working Commission on Aging (a cross-agency advisory and coordinating body of the State Council), whose focus is on social support for the elderly as opposed to family planning policy.

¶5. (SBU) Some Chinese academics believe that the one-child policy is not sustainable. The public attention generated by recent public statements clarifying family planning policy by Shanghai municipality illustrates widespread public interest in this question (reftel B). However, Deputy Director General Ru also was dismissive of the suggestion that the Shanghai policy pronouncements represented a change in policy, explaining that family planning officials in the city were simply encouraging those eligible to have a second child according to pre-existing regulations to in fact have a second child. She characterized such a campaign as routine, though Shanghai family planning officials specifically cited as a reason for their efforts that the campaign "can help reduce the proportion of aging people and alleviate a work shortage in the future."

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¶6. (SBU) Chen Gong, Executive Director of the Institute of Aging Studies at Peking University, and professor Mu Guangzong, also of Peking University, further emphasized the government's focus on developing social support as the primary means of addressing the pressures of an aging population. Professor Chen noted that the National Commission on Aging supports adjusting the family-planning policy to relieve old-age social security concerns (as do many other researchers and academics), but the more common view is that social security problems can be addressed by changing other social support systems like social insurance and pensions. With a greater focus on limited natural and government resources, most government experts and policy makers support maintaining China's low fertility rate.

#### Present Retirement Age Policy

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¶7. (SBU) China's retirement age is the same for both public and private sectors. For males, the retirement age is 60, for female intellectuals (this category also includes civil servants and bureaucrats) it is 55, and for female workers it is 50. The mandatory retirement age is higher at the upper levels of the government: for vice-ministers and those of equivalent rank, it is 60 years of age for both genders, and for those at ministerial or equivalent rank, it is 65. However academics reported that in public service institutes (such as schools and hospitals) and in the civil service, enforcement of these limits has been lax, and it is quite easy for those at higher levels to delay retirement for several years.

#### Pension Fund Administration

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¶8. (C) Pension funds at both central and local levels are administered by MOHRSS (Ministry of Human Resources and Social Security). Funds are largely pooled at the county and municipal level by the local branch of MOHRSS, which also collects and distributes these funds. According to Zhang Juwei, Deputy Director of the Institute of Population and Labor Economics at the Chinese Academy of Social Sciences, while the pension system overall is currently in surplus,

many localities are in deficit. According to Zhang, local governments are required to attempt to make up the difference, but the Central Government must take up the burden if the localities can not.

¶9. (U) All employees and employers are required to pay into a pension fund administered by local or municipal governments, and only those who have been paying contributions for at least 15 years and have reached the retirement age are eligible to receive a pension. Although the precise amounts vary by region, the standard practice in urban areas is for an employer to contribute an amount equaling 20 percent of a worker's wages to a pooled local or municipal fund, while the worker contributes 8 percent to a segregated personal retirement savings account. Only those workers who are able to retire in the municipality are able to receive payouts from the pooled retirement funds (e.g. many migrant laborers are not able to collect these funds on retirement as they are not official residents in the urban area where they worked). Upon retiring, the payout amounts vary by region and locality.

¶10. (U) In rural areas, on the other hand, pensions are entirely funded by individuals' contributions. In October of 2008, 10 percent of China's counties started a trial program to provide rural residents with a new pension program identical to the one available in urban areas, with contributions which would normally be provided by an employer coming from the central government instead.

#### Insuring Pensions

¶11. (U) China's pension funds are insured by local financial authorities. If a fund is unable to meet its payout requirements, it must turn first to the provincial government and then to the central government for assistance. The NSSF (National Social Security Fund), which directly under the control of the State Council, also plays a role in funding pensions by managing funds allocated from the central budget. The majority of the NSSF pool is invested in state-owned enterprises and banks, with just 20 percent invested in the private sector. The proportion invested in the private

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sector is expected to increase in the near future, however. About half of the fund has been placed in the hands of private Chinese and international investment management funds. The NSSF pool was expanded on June 19, 2009, when the State Council ruled that 131 state-owned enterprises (specific names were not made public) would be required to make available a portion of their state-owned shares (comprising 10 percent of their total initial public offering) to the NSSF for purchase.

¶12. (SBU) Over the past few years the amount allocated to the NSSF fund from the Central government has grown steadily -- the 2009 National People's Congress approved a budget with an expenditure of 335.1 billion Yuan (US\$ 49.2 billion) on social security (although this amount also includes non-pension related expenditures, such as standard of living subsidies for rural areas), which represented an increase of 22.1 percent from the 2008 budget allocation. Similarly, the 2008 social security expenditure target increased from that of 2007 by 24.1 percent, which was an increase of 13.7 percent from 2006.

#### Pension System Reform Policy Options

¶13. (C) Zheng Shangyuan, Professor of Labor Law and Social Security at Tsinghua University School of Law, and Zhang Juwei, Deputy Director of the Institute of Population and Labor Economics at the Chinese Academy of Social Sciences, said that China has three options to deal with rising pension costs from an aging population: expand social insurance

coverage and collect contributions from more citizens; delay the retirement age; or lower the rate of increase of outgoing pension payments. Which option the government will take in the future will depend on its ability to sustain future economic development, according to Professors Zheng and Zhang. Nevertheless, they noted that while increasing pension costs would be a challenge, it would be manageable if China continues to "get richer and richer" and probably would not lead to a crisis. Professor Zhang added that the most critical current problem is a lack of national level "pooling" of pension contributions.(reftel C) A lack of coordination among regional and local pooling of pension funds leads to an uneven and inefficient pension payment system. Central pooling would also make pensions more geographically portable. Professor Zhang noted that the government's recently announced "universal low benefit pension plan," which calls for providing flexible benefits to rural elderly citizens, is a good start and a practical way to expand coverage.

¶14. (C) Professors Zheng and Zhang opined that the graying society and its accompanying stress on the pension system are not issues of great concern at the highest levels of the Central Government. Professor Zheng said officials are aware of the issue but are not actively debating it within the bureaucracy. He cited as evidence the fact that the government has yet to form a panel or working group to address shortfalls in the pension system. The government believes, he said, that adequate funds could be obtained to address the problem by cutting back on wasteful spending and corruption. China likely will also be richer by the time the crunch (estimated for 2016 or 2017) hits, according to Zheng. In fact, Professor Zhang noted that many leaders may not care greatly about the potential crisis, because it will only become pressing after they are already out of office. Zhang also commented that China should have the fiscal resources to deal with the pension issue, so he views it more of a social problem.

#### Raising Retirement Age as a Policy Option

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¶15. (SBU) One suggestion for strengthening the pension system, which outside observers have put forward, has been to raise the mandatory retirement age. The Central Government reportedly has been studying the proposal since April 2008, and recent Chinese media reports seem to suggest that the government agrees with many editorials in the state-controlled press that have advocated in favor of such a plan. In July 2008, MOHRSS stated that no change in the general retirement age (as opposed to that for intellectuals) would be made until at least 2020, explaining that the current levels of unemployment make such a move inopportune. However, an unnamed government source cited in the Beijing Times in December 2008 said that a plan under consideration

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would raise the retirement age for women in 2010 and for men in 2015, in both cases to age 65.

¶16. (SBU) Also in December 2008, the Beijing municipal government proposed raising the women's retirement age on par with that of men, framing the issue as one of gender equality. Prominent members of the government, also speaking in terms of women's rights and not in direct reference to problems associated with funding for the pension system, supported the change, according to local press. However, in May 2009, it was reported that some members of the Beijing Municipal People's Congress--mainly academics and physicians--had expressed reservations over this proposed change, because it would deprive certain women of the option to retire early. Municipal authorities claimed to have received 519 suggestions from the general public on the issue, "including 219 that agree and 210 that disagree."

¶17. (C) Tsinghua law professor Zheng Shanyuan told Econoffs that in general, while those in the government charged with

managing the pension program favor raising the retirement age, those charged with employment promotion strongly oppose it, believing that it would lead to an unemployment problem. Zheng himself believes that in spite of this opposition, the retirement age could still be raised, because the problem of unemployment will lessen as soon as China emerges from the current economic crisis, while the graying of the society will become an increasingly serious issue.

#### COMMENT

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¶18. (C) While the government recognizes the budgetary risks posed by China's aging population, it appears that concerns about employment stability and resource scarcity are driving policy decision making. The government has repeatedly emphasized that China's low-fertility rate policy will continue. Similarly, policy makers appear confident that continued economic growth can alleviate the risk of a crisis in the pension system. However, concern about social stability likely will push the government to deal with issues of the ageing population through addressing persistent shortcomings in the social safety net.

HUNTSMAN